

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 INRE-00
USIE-00 SP-02 AID-05 EB-07 NSC-05 EPG-02 TRSE-00
SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03
INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01
DODE-00 PM-04 H-01 L-03 PA-01 PRS-01 IO-13 IGA-02
FEAE-00 AGRE-00 /100 W
-----024469 121905Z /41

O R 121813Z JUL 77

FM AMEMBASSY MADRID

TO SECSTATE WASHDC IMMEDIATE 996

INFO AMEMBASSY

AMEMBASSY LISBON

AMEMBASSY BRUSSELS

LIMITED OFFICIAL USE SECTION 1 OF 2 MADRID 5284

USOECD

USEEC

E.O.11652: N/A

TAGS: EGEN, EFIN, PFOR, SP

SUBJECT: SUAREZ GOVERNMENT STATES PLANS FOR SPANISH ECONOMY

REF: (A) MADRID 5218, (B) MADRID 5234

1. SUMMARY: FOLLOWING THE FIRST MEETING OF THE NEW SPANISH CABINET, THE GOVERNMENT LAST NIGHT PUBLICLY OUTLINED SOME OF ITS PLAN. THOSE OF AN ECONOMIC NATURE ARE TREATED IN THE CABLE: SEPTEL DISCUSSES POLITICAL AND OTHER MATTERS. THE GOVERNMENT, TOGETHER WITH OPPOSITION FORCES AND UNIONS, WOULD LIKE TO WORK WITHOUT A COMPREHENSIVE TWO-YEAR PLAN FOR A RECOVERY OF THE SPANISH ECONOMY. THERE WERE FEW REAL SURPRISES EXCEPT FOR THE VAGUENESS ON THE IM-
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PORTANT ISSUE OF SALARIES AND THE ABSENCE OF ANY MENTION OF PRICE CONTROLS, AND ENERGY PROGRAM, OR TRADE MEASURES. THE ONLY MEASURE BROUGHT INTO EFFECT IMMEDIATELY WAS DEVALUATION OF THE PESETA. THE 24,6 PERCENT DEVALUATION FINALLY ANNOUNCED THIS MORNING (SEE MADRID 5234) AND THE PUBLIC EXPECTATION OF IMPORTANT MEASURES REMOVED SOME OF THE DRAMA FROM WHAT WAS ANNOUNCED: AN

EMPHASISON TAX MEASURES, PROPOSALS FOR MAKING UNEMPLOYMENT LESS PAINFUL AND FOR PUBLIC WORKS PROJECTS, A SLIGHT REDUCTION IN BROAD MONEY (M3) GROWTH AND THE ALREADY EXPECTED DECISION TO APPLY SOON FOR EEC MEMBERSHIP. END SUMMARY.

2. MONDAY'S MUCH HERALDED FIRST CABINET MEETING OF THE THE POST ELECTION GOVERNMENT WAS ACCOMPANIED BY DAY-LONG SPECULATION ABOUT IMPORTANT ECONOMIC ANNOUNCEMENTS. SINCE THE SPANISH FOREIGN EXCHANGE "MARJET" WAS CLOSED DURING THE DAY, THERE WAS PARALLEL SPECULATION ON THE POSSIBILITY OF A 15-30 PERCENT DEVALUATION, OF THE PESETA (THIS MORNING THERE WAS A 25 PERCENT DEVALUATION, SEE MADRID 5234). AFTER THE CABINET MEETING, SUAREZ ECONOMICS VICE PRESIDENT FUENTES AND THE MINISTERS OF FINANCE AND LABOR MET WITH SOCIALIST LEADER FELIPE GONZALEZ. SHORTLY AFTER 11 O'CLOCK LAST NIGHT THE GOVERNMENT MADE ITS ANNOUNCEMENT ON THE CABINET MEETING.

3. THE ECONOMIC CONTENT WAS MORE VAGUE THAN MANY HAD EXPECTED. SUCH IMPORTANT ISSUES AS PRICE CONTROLS AN ENERGY PROGRAM AND TRADE MEASURES WERE NOT TOUCHED UPON. ONLY BARE MENTION WAS MADE OF THE NEED FOR RESTRAINED WAGE HIKES (PRESUMABLY BECAUSE THIS IS ONE OF THE ITEMS TO BE NEGOTIATED WITH THE OPPOSITION). LIMITED OFFICIAL USE

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THE FACT OF A DEVALUATION WAS CONFIRMED. EMPHASIS WAS PLACED ON THE NEED FOR SPECIFIC TAX REFORMS AND FOR UNEMPLOYMENT RELATED MEASURES THE GOVERNMENT WILL ALSO REDUCE SLIGHTLY THE RATE OF BROAD MONEY ME EXPANSION.

4. THE GOVERNMENT PROMISED TO IMPROVE ("SANEAR") THE ECONOMY THROUGH ELABORATION OF A COMPREHENSIVE TWO-YEAR PLAN, WHICH IT WILL NEGOTIATE WITH "NATIONAL SECTORS" (POLITICAL PARTIES AND LABOR UNIONS). THAT PART OF THE PROGRAM WHICH WAS ANNOUNCED WOULD SEEM FAIRLY ACCEPTABLE TO WORKERS, AND SHOULD ENHANCE THE GOVERNMENT'S SUCCESS IN NEGOTIATIONS WITH OPPOSITION LEADERS. IN FACT FELIPE GONZALEZ TOLD THE PRESS AFTER MEETING WITH SUAREZ THAT "SOME POINTS SOUND LIKE WHAT WE SAID DURING THE ELECTION CAMPAIGN."

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AMEMBASSY LISBON

AMEMBASSY BRUSSELS

LIMITED OFFICIAL USE SECTION 2 OF 2 MADRID 5284

USOECD

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E.O.11652: N/A

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SUBJECT: SUAREZ GOVERNMENT STATES PLANS FOR SPANISH ECONOMY

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5. THE SPECIFIC ECONOMIC PROPOSALS AND DECISIONS

ANNOUNCED WERE:

A) TAXES: PLANNED TAX MEASURES ARE DESIGNED TO
REDISTRIBUTE INCOME. BEFORE SEPTEMBER 30 E
GOVERNMENT WILL PRESENT THE CORTES A DRAFT LAW TO

REFFORM THE INCOME TAX, AND TO CREATE A WEALTH TAX ON
UPPER INCOME SPANAIRDS. BEFORE NOVEMBER 30 A BILL
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TO REFORM INDIRECT TAXAION WILL BE INTRODUCED. TAX
FRAUD WILL BE A CRIME. MORE RESOURCES WILL BE CHANNELED
TO TAX COLLECIONJN WITH TAX INSPECTORS HAVING

ACCESS TO CHECKING ACCOUNT RECORDS OF DANKS.

B) UNEMPLLYMENT: COMPENSAION FOR HE UNEMPLOYED.
PUBLIC WORKS TO PROMOTE EMPLOYMENT ESPECIALLY IN
HARD HIT REGIONS. TAX INCENTIVES FOR BUSINESSMEN
WHO CREATE NEW JOBS. POSSIBLE TRANSFER OF SOME OF
THE SOCIAL SECURITY BURDEN FROM BUSINEEES TO THE
FEDERA TREASURY.

C) SALARIES: SALARY GROWTH SHOULD BE MODERATED.

D) MONETARY POLICY. ESTABLISH A REALISTIC EXCHANGE
RATE. THE RATE OF BROAD MONEY GROWTH (M3) WILL BE
REDUCED SLIGHTLY. INTEREST RATES WILL BE LIBERALIZED
(I.E. BE ALLOWED TO GRADUALLY MOVE TOWARDS MARKET
INDIDATED RATES). ADDITONAL CREDIT WILL BE MADE
AVAILABLE TO SMALL AND MEDIUM SIZE COMPANIES.

E) EEC MEMBERSHIP APPARENTLY WITHOUT ASKING FOR
CORTES DEBATE, THE GOVERNMENT WILL SOON APPLY FOR
FULL SPANISH MEMBERSHIP IN HE EEC.

6. COMMENT: THE ECOMIC ANNOUNCEMENTS, IMPORTANT
AS SME OF THEM ARE, DO NOT CONSTITUTE A FULL
STABILIZATION PROGRAM. SOME OF THE MEASURES, PARTI-
CUARLY TAX REFORMS AND REDUCED MONEY GROWTH, ARE A
SEP IN THE RIGHT DIRECTION. THE 25 PERCENT DEVALUATION
IS NOT ACCOMPANIED BY MEASURES TO CONTROL
PRICES AND MAY THEREFORE INCREASE SPAIN'S INFLATION
PROBLEM. WE EXPEC THAT THE SUAREZ GOVERNMENT WILL
NOW HOLD IMPORTANT NEGOTIATIONS WITH THE SOCIALISTS
AND WITH UNIONS, AND THAT THE LOCUS OF THESE
NEGOTIATIONS WILL BE CONTROL OF WAGES AND PRICES.
THE ECONOMIC PRODUCT OF THIS FIRST CABINET MEETING
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THEREFORE HAS TO BE VIEWED AS UNFINIS ED OR AS THE
GOVERNMENT STATED, AS THE BEGINNING OF COMPLEX
NEGOTIATIONS FOR A TWO YEAR ECONOMIC EFFORT.STABLER

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